CARES Act: Tax changes affecting individuals - Part 1

By Eva Stark, JD, LL.M.

(Part 1 of a 2-part series)

The Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27th, 2020. While there has been much focus—even frenzy—around the benefits conferred on businesses by the more than $2 trillion economic relief package, there has been less discussion about provisions that may benefit individuals, which mainly involve changes to tax-advantaged health accounts, charitable deductions, a refundable tax credit, suspension of required minimum distributions and easier access to retirement plans through distributions or loans. Part I of this article discusses all of the above except the provisions involving enhanced access to retirement accounts, which will be the focus of Part 2.

Expanded Use of Tax-Advantaged Health Accounts

Individuals may be able to use tax-advantaged health accounts—such as HSAs or FSAs—for certain over-the-counter medications. Tax-advantaged health accounts may additionally be used to purchase certain feminine products. Under previous law, such accounts could only be used for over-the-counter medications with a doctor's prescription. This deterred many taxpayers from fully utilizing their accounts, as obtaining a prescription could be time-consuming and costly.

Bigger Charitable Deductions

NEW ABOVE-THE-LINE DEDUCTION. Beginning in the 2020 tax year, taxpayers who do not itemize deductions may be eligible to take an above-the-line deduction for up to $300 in eligible cash contributions to qualifying charities. Qualifying charities generally do not include certain private foundations, supporting organizations and donor-advised funds.

HIGHER AGI PERCENTAGE LIMITATION. The adjusted gross income or AGI percentage limitation for cash contributions by individuals to qualifying charities has been suspended for the 2020 tax year. Under previous law, the deduction an individual could receive for a qualifying charitable cash contribution was limited to 60% of the taxpayer's AGI. Contributions to certain private foundations, supporting organizations and donor-advised funds are generally ineligible for this increased limit.

Refundable Tax Credits

Individuals with adjusted gross income under $75,000 ($150,000 for married filing jointly) may be eligible for a $1,200 ($2,400 for married filing jointly) tax credit, plus $500 for each dependent under age 17. Above this level, the credit is phased out by $5 for each $100 of additional income. The credit is completely phased out for those with income in excess of $99,000 ($198,000 for married filing jointly).

While the credit is technically for tax year 2020, individuals' level of income for 2020 is yet to be seen. As a result, the advanced rebates were based on income for tax years 2019 or 2018 at the time of issuance. Individuals who received a rebate because their income was below threshold levels in 2018 or 2019, but whose 2020 income will exceed such levels, will not be required to repay their rebates. Individuals who did not receive a rebate because their 2019 or 2018 income was too high, but whose income will be below these thresholds in 2020, may be eligible for the rebate upon filing of their 2020 tax return.

Suspension of 2020 Required Minimum Distributions

Qualified plan participants and IRA owners will not be required to take required minimum distributions for 2020. Individuals need not be adversely affected by COVID-19 to take advantage of this benefit.

The RMD suspension also applies to beneficiaries who have inherited accounts. Qualified plan participants or IRA owners who have already taken an RMD and would like to "undo" the distribution might consider a 60-day rollover of the distribution, if requirements for such a rollover would otherwise be met. Beneficiaries of inherited IRAs or plans cannot roll over distributions. If the 60-dayrollover window has passed, individuals might also take advantage of the extended deadline for rollover distributions set out in Notice 2020-23. The notice extended the deadline for rollovers that had to be completed between April 1, 2020, and July 14, 2020, to July 15, 2020. Those affected by COVID-19 might also explore treating the distribution as a "Coronavirus-Related Distribution" and repaying it within three years.

See the upcoming Part 2 of this article for more details on Coronavirus-Related Distributions and Coronavirus-Related Loans.

Eva Stark, JD, LL.M., joined The Nautilus Group in 2014 to assist with the development of estate and business plans. She also performs advanced tax research. Eva graduated summa cum laude with a BS in economics and finance from The University of Texas at Dallas. She earned her JD, with honors, from Southern Methodist University, where she served as a student attorney and chief counsel at the SMU Federal Taxpayers Clinic. She received her LL.M. in taxation from Georgetown University Law Center. Prior to joining Nautilus, Eva worked in private practice in tax controversy, business law, and litigation.